Grant Thornton
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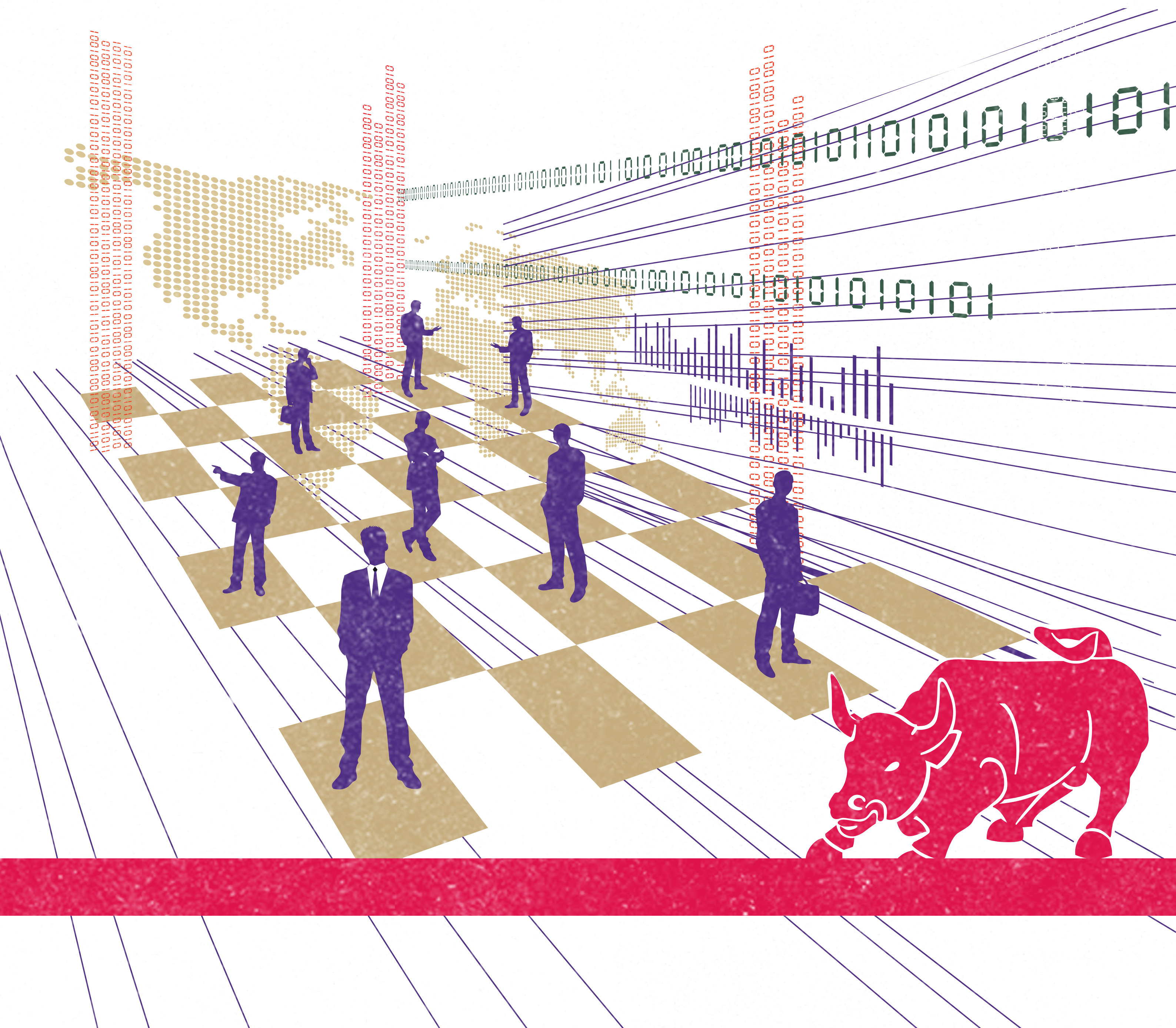
US Listing Perspectives



Foreword

We are pleased to present this document which provides some perspectives to be considered by an Indian corporate while going public and getting listed in the United States capital markets.

US is the largest and deepest capital market in the world with huge pools of capital, depth of investors, and understanding of businesses, particularly those related to technology.

It also hosts the most prestigious markets in the world. Therefore, listing in the US is attractive and a desirable objective for many companies.

Most of the largest, most successful and long lasting businesses, which are household names from Asia be it Sony, Toyota, Samsung or HDFC Bank, Makemytrip, Infosys, Wipro etc have listed in the US for these reasons.

For certain category of companies, typically the new-age companies in the technology space, research based companies etc, which are not valued based on traditional norms of price earnings, cash flow in the US is more attractive as the investors there are more familiar with such companies and understand the risks and rewards of investing in such companies.

SEBI (Securities and Exchange Board of India) has recently launched the Institutional Trading Platform (ITP) and over a period, the Indian market may also develop but presently the guidelines do not permit such companies nor are there large pools of investors who understand these sectors.

Indian companies, which are India based, can now list American Depository Receipts (ADRs) in the US without listing in India as per the new guidelines in this year's Union Budget. Alternatively, those Indian companies which have 'flipped' or were originally incorporated outside India can directly list their shares in the US.

Some of the major aspects to consider while evaluating whether to raise capital and list in the US are:

1. It is a rule based market, so it's very important that your organisation starts understanding the rules and adheres to the rules as a culture. Written word is important and crucial. So everything needs to be documented and clear. The market is unforgiving of attempts to manage results or delay news and being open. So be prepared to share and share fast, especially negative news.
2. The regulators are sharp and expect timely action in terms of reports and disclosures. Any adventurism entails punishment.
3. Be prepared to engage with the US lawyers actively and consult them on all key aspects. Engage good high-quality firms which have SEC experience. Be prepared for significantly higher costs for maintaining listing in the form of fees to advisors.
4. Be prepared to do M&As and be the target of acquirers. Have an open mind.
5. Engage actively with the investor base and ensure that you are available to answer queries clearly and consistently. Remember and document what you say as they will challenge you if you change what you said earlier without a valid explanation. Engage a good quality public relations firm.
6. Have a strong board and governance standards and not just a tick in the box. Be prepared for the board to guide you and in some cases direct you. Ensure that your organisation is well prepared on Sarbanes Oxley (SOX), which means working towards stronger internal controls over financial reporting
7. Engage with quality firms to do audit, SOX reviews based on skills and experience of professionals.
8. Take advantage of the US markets' ability to be innovative in terms of financial instruments, classes of shares and other structures.

There is clearly a challenge and an opportunity of listing in the US, and Indian corporates are therefore advised to consider some of the above factors.

Harish HV

Partner, India Leadership Team
Grant Thornton India LLP

Pros and cons of going public

Going public can be a defining moment for an organisation, accelerating its growth potential and strengthening its reputation. Companies like Visa, Apple and Google have flourished since completing their IPOs; most recently, in the day following Alibaba's stunning market debut, shares of the e-commerce firm were up by 38%.

1. Global IPO volumes reflect the market's continued enthusiasm: in 2014, proceeds reached US$ 166.2 billion — the highest level since 2010.
2. However, going public may not be the right answer for every business. Public companies must deal with investor pressure to meet growth expectations, heightened legal risk, competition for talent with specialised skills, and increased compliance and reporting requirements in a burdensome regulatory environment.
3. A public company also needs to register the offering and sale of its securities with the SEC. Before deciding whether or not to take your company public, it is important to consider both the benefits and the potential drawbacks. There may be other, better ways to accomplish your company's objectives.

> “A US IPO opens up a world of opportunity for innovative companies with aggressive growth strategies. The complexities and risks associated with US offerings need to be carefully considered, but are only minor hurdles for companies that take the right approach. We've worked with many companies over the past few years that invested in their infrastructure well in advance, on boarded the necessary internal resources, and hired advisors with the right expertise. The results? -- smooth, successful, and cost-effective IPO transactions occurring within time-frames comparable with most other capital raising alternatives. And with the recent SEC rule changes in the past few years, the US markets are even more accessible for emerging companies.”

Scott Ruggiero
Partner, Grant Thornton LLP, US

Why go public?

Going public has long been considered a landmark for a successful organisation. There are plenty of reasons why achieving listed status may be the right move for your company.

Raise additional capital

Your company may be able to raise substantially more capital by going public than it can accumulate through other means, such as debt financing or tapping into private equity.

Improve your financial position

A public offering can boost your company's net worth and/or reduce your company's debt-to-equity ratio.

Create a currency

Once public, it may be somewhat easier to raise additional capital as needed in the future. Moreover, having publicly traded shares creates a currency that can be used to acquire other businesses and compensate key personnel, in lieu of paying cash.

Provide liquidity for existing shareholders

Going public enables existing shareholders to monetise their holdings. And, unlike a complete sale of the company, going public allows existing investors to retain some upside potential in the business if they so desire.

Raise company profile

A public company — and its owners — can enjoy a certain cachet that is not often available to private competitors. Plus, being a public company can heighten name and brand recognition, generating more interest from potential customers, investors and employees.

Benefit from analyst coverage

Buy-side analysts from major financial institutions will begin benchmarking your performance against a peer group once you go public, highlighting your strengths and recommending areas for improvement.

Why going public might not be the right answer for your company

Going public can also have its downsides. As the CFO of an emerging tech company recently commented, achieving listed status means "we'll have pressure to hit our targets every quarter, our compliance costs will increase, and we'll have significant legal exposure."

Factors to consider include:

Sensitive information will become available to the public

Material agreements with customers, suppliers and employees must be made publicly available on a timely basis — and therefore will be open to scrutiny by regulators, investors, suppliers and competitors.

Pressure to meet or exceed analyst expectations

The urge to meet — and beat — quarterly analyst expectations may encourage short-term decision-making at the expense of the company's longer-term goals. Even worse, this pressure can trickle down, making a company vulnerable to misconduct by employees who feel they have to hit their numbers.

Increased legal risk

A public company — as well as its officers and directors — can be exposed to nuisance lawsuits when the entity fails to meet analyst estimates or to complete a major transaction, such as an acquisition. Even if the claims have no merit, defending against these actions can be time-consuming and expensive.

Possible loss of control

If a sufficiently large percentage of company shares is sold to the public, the original shareholders may lose control of the company. A public company is also vulnerable to hostile takeovers or involvement by activist investors.

Increased time demands

A typical IPO takes several months to complete. There will be frequent meetings with underwriters, lawyers and accountants. In addition, management will participate in a road show — presenting the organisation to the investment community to build excitement around the offering. These activities take a lot of time and distract management from otherwise running and growing the business.

Expense of going public

The underwriters' commission is typically 5–7% of the total offering proceeds and additional fees will have to be paid to attorneys, accountants and printers.

Costly to maintain public company status

Once public, there are significant ongoing costs to comply with federal securities laws and exchange listing requirements. A public company may need to hire additional accounting, tax, legal and investor relations resources, recruit and compensate non-executive/independent board directors, and pay director and officer liability insurance premiums.

Increased reporting and compliance requirements

A public company must file periodic reports with the SEC. Public companies are also required to maintain a system of internal controls, which is periodically evaluated, or, in certain cases, audited by an independent accountant.

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A public company must file periodic reports with the SEC. Public companies are also required to maintain a system of internal controls, which is periodically evaluated, or, in certain cases, audited by an independent accountant. Additionally, CEOs and CFOs must provide quarterly certifications as to the completeness and accuracy of the materials filed with the SEC. The penalty for a false certification is up to 20 years in prison and/or up to a US$ 5 million fine.

What are some alternatives to going public?

A company may be able to achieve some of the benefits of going public through other mechanisms. However, even these alternative strategies have their pluses and minuses. Is going public right for your company? There are no easy answers. Every business will have to reach its own conclusion, in consultation with its financial, legal and accounting advisers.

What are some alternatives to go public			
Alternate strategy	**Description**	**Advantage**	**Disadvantage**
Exempt offerings	Offerings that meet certain criteria and are exempt from SEC registration, such as small offerings under Regulation A and Regulation D, Rule 144A private placements including both equity and debt offerings) and others	Access to the capital markets without having to bear the costs of SEC registration and ongoing periodic filings	In most cases, a company can raise more capital through an IPO than exempt offering In many types of exempt offerings, securities may only be sold to qualified buyers, limiting the pool of potential investors
Crowdfunding	An emerging means of raising capital by obtaining a series of smaller investments from a large number of people, typically through the use of social media sites	Enables entrepreneurial companies to raise capital that traditional investors or lenders are not willing to provide Can be less costly than obtaining financing through other means	While the JOBS Act established the regulatory foundation for the equity model of crowdfunding, companies may not offer or sell securities under a crowdfunding exemption until the SEC adopts final rules. The SEC proposed rules governing crowdfunding in 2013 Any final SEC rules may likely significantly limit the amount of capital than can be raised each year through crowdfunding
Secondary market transactions	Private transactions that allow investors / employees to liquidate their stock holdings to qualified investors	Enables original shareholders or option holders to monetise some / all of their holdings	This alternative is only available to certain well-known private companies Not a means to raise capital for the business itself
Debt financing	Involves borrowing money from a financial institution or via a private financing	With debt financing, the equity owner's interests in the company are not diluted The after-tax cost of borrowing funds can be less than issuing equity securities, mainly because interest expense is deductible	Debt financing impose an obligation on a company to make periodic payments of principal and interest This type of financing can constrain future growth if a company becomes "too leveraged"

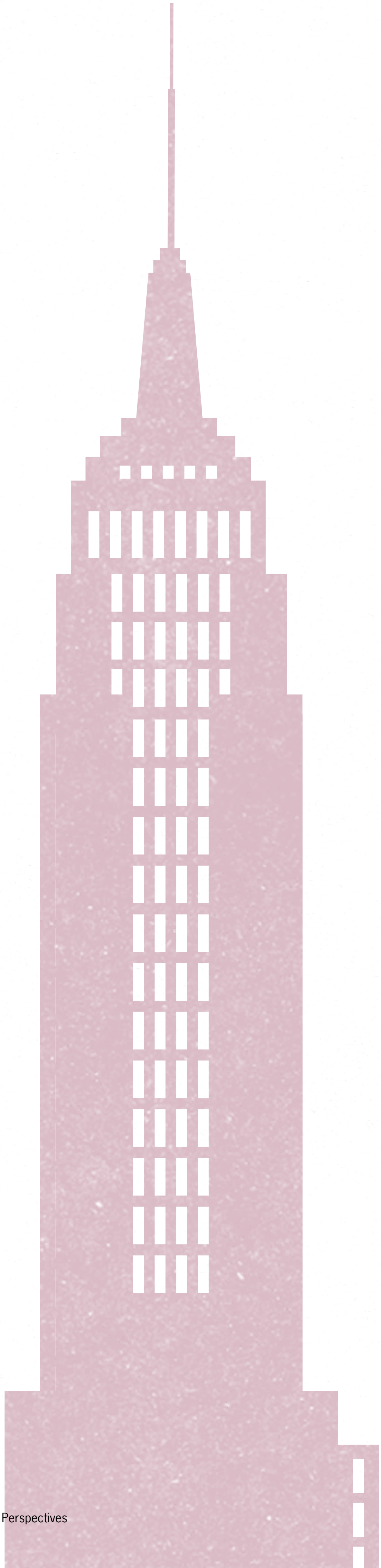
Our view

Going public is a major milestone in the journey of an organisation as well as a major transformation.

US listing will require different and more frequent reporting and disclosure requirements for investors and regulatory agencies. The company announcements and press releases would generate visibility but also high expectations from various stakeholders like shareholders, board of directors, auditors and regulators.

This is just not only about the “Rules” and “Processes” and “US SEC”, this is also about people transformation and seizing the potential of people and organisational culture. Therefore, achieving listing requires many changes in the way you manage your company and pulling many diversified levers to make this transformation happen.

We believe that it is both the softer and harder aspects of organisational transformation which would need to be harnessed in time to seize the listing opportunity and sustain the pressures that listing comes with.



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Source:

This document includes extracts of an article of Grant Thornton US Firm (article written by Kendra Decker, National Professional Standards Group) published in December 2014.

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